Consultation Draft

February 2016

WICI Intangibles Reporting Framework

Version 1.0

(Comments to be received by 16 May 2016)

World Intellectual Capital/Assets Initiative

About WICI

Vision
WICI recognizes the need for a corporate reporting that integrates the communication of narrative and quantified information on how organizations create value over the short, medium and long term through the utilization of intangibles. WICI was formed in October 2007 and its participants include organizations representing companies, analysts and investors, the accounting profession and the academia, who collaborate together to promote a better corporate reporting by recognizing the role of intangibles/intellectual capital in the sustainability of an organization's value generation. (www.wici-global.com)
Network
WICI operates through its national and regional jurisdictions with the aim to promote improved corporate reporting through a focus on intellectual capital/assets in each of the regions and countries represented. Original WICI promoting parties are: ● USA : Enhanced Business Reporting Consortium ● Europe : European Federation of Financial Analysts Societies (EFFAS), University of Ferrara ● Japan : Japanese Ministry of Economy, Trade and Industry (METI), Waseda University
Activities
● Voluntary Reporting Framework – WICI released in 2007-2008 a comprehensive information framework and XBRL taxonomy to help companies better communicate with their investors and other key audiences about business strategy and current and expected performance. Many elements of this framework were contemplated in the development of the International <IR> Framework. This framework can be viewed at http://www.wici-global.com/framework and WICI welcomes feedback on the definitions of the elements and structure of the framework. ● Collaboration – WICI supports and collaborates with groups to help further the evolution of corporate reporting. WICI signed a formal agreement (MoU) with the

International Integrated Reporting Council (IIRC) in which both parties agree to work together to develop and promote the Integrated Reporting <IR> Framework and other business reporting frameworks, guidelines and standards that can be aligned to strengthen corporate reporting with a focus on value creation. More specifically, WICI's support to the IIRC is focused on enabling meaningful corporate reporting in relation to Intellectual/Organizational, Relational and Human capital.

- Industry Specific KPI Studies – WICI facilitates and cooperates on the development of commonly recognized and accepted Key Performance Indicators (KPIs) as one of the important elements of the reporting on intangibles. KPIs may be financially derived and/or non-financial (i.e. non-monetarily expressed) in nature, and may include a wide range of market-oriented, industry-specific, and organization specific indicators. To date WICI has developed KPIs for the following industries: High Technology, Mining, Automotive, Electronic Devices, Pharmaceuticals, Telecommunications, Fashion and Luxury, Electricity, and Oil & Gas (forthcoming). The WICI-Industry KPIs can be viewed and freely downloaded at http://www.wici-global.com/kpis

Consultation Questions

WICI, the World Intellectual Capital/Assets Initiative, has published "WICI Intangibles Reporting Framework Version 1.0 Consultation Draft" to further enhance the reporting on intangibles information and metrics.

WICI is seeking comments on all aspects of the Framework from all stakeholders. WICI's preference is for comment letters to be submitted via our website at https://wici.sakura.ne.jp/consultation/, which requires registration. Alternatively, comments may be submitted to the following email address: wici-global-consultation@wici-global.com

Please include in your response the name, nature and location of your organization. All comments received will be considered as a matter of public record and will be posted on www.wici-global.com after the end of the consultation period. Comments should be submitted by Monday May 16th, 2016.

No	Section	Questions
Q1	1-3	Do you agree with the primary audience and information users of the Framework?
Q2	2-1	Do you agree with the definition of intangibles? Why/why not?
Q3	2-4	Do you find the concept of the interrelatedness of Organizational, Human and Relational capital clear and helpful?
Q4	Chapter 3	Are the Guiding Principles for Intangibles Reporting and Communication clear and

		complete? Why/why not?
Q5	Chapter 3	Do you agree with the proposed Guiding Principles? If you would suggest deleting, modifying, or adding any Guiding Principles, please specify. Please also indicate if you believe the list of Guiding Principles should be re-ordered or prioritized, and if so, how.
Q6	4-1	Do you agree with the definition of and the role attributed to Key Performance Indicators (KPIs)?
Q7	4-2	Do you agree with the three sections of Content Elements? Why/why not?
Q8	4-2/ Appendix 3	Would it be helpful to include more examples of KPIs? Why/why not?
Q9	Glossary	Are there any terminologies in Glossary which are not clear?
Q10	Overall	Please provide any other comments not already addressed by your responses to Questions 1-9.

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Executive Summary

WICI recognizes the need for a corporate reporting framework that integrates the communication of narrative and quantified information expressed in both financial and non-financial (non-monetary) terms to better convey how organizations create value over the short, medium and long term through the utilization of intangibles.

The current financial reporting model focuses primarily on historical financial performance, and overlooks many intangibles, especially if internally generated, making it difficult for users to understand the value creation mechanism of an organization. Furthermore, stakeholders are interested in future organizational performance, which cannot be predicted solely on the basis of information reported only on past and current financial performance.

The purpose of the "WICI Intangibles Reporting Framework" (hereinafter "the Framework") is to establish guiding principles and content elements for the reporting of intangible resources which are material for an organization's value creation process and its communication to stakeholders, from the perspective of showing the sustainability of the business over time.

The primary target audience of the Framework is all companies and other organizations belonging to the private, public and not-for-profit sectors. Reporting and communication on intangibles are intended to provide useful information for decision making, and in particular resource allocation decisions, to investors, creditors, analysts, as well as the organization's management. These are expected to be the primary information users.

The reporting of intangibles may be a catalyst for an organization to evolve towards the establishment of a positive cycle of value creation.

The Framework is principles-based. Accordingly, no detailed reporting rules will be provided in this Framework.

The Framework is not meant to require organizations to produce a new type of report in addition to existing reports. Information about intangibles can be employed and reported in various forms of corporate reporting, including integrated reports and business reports for both internal and external use.

Intangibles are defined here as non-physical resources that generate value to the organization in the short, medium and long term. There are intangible assets and intangible liabilities. The Framework addresses in particular the intangibles that are not covered in reporting under current financial accounting rules and standards.

Guiding Principles for Intangibles Reporting and Communication

The following common reporting and communication principles can be adopted to improve communication about intangibles and their role in the value creation mechanism of the organization.

- **Relevance**: information in both narrative and quantified form should be aligned to an organization's own value creation mechanism.
- **Materiality**: organizations should report on information representing the most significant intangibles for their value creation over time.
- **Completeness and Connectivity**: information should show the overall picture of an organization's activity and operations from management's perspective, taking into full account the description of the connection between material intangibles for the company-specific value creation mechanism.
- **Conciseness**: information should be concise to enhance the understanding of primary and other stakeholders
- **Future-orientation**: information should focus on future value creation that affects the organization's strategic and financial value.
- **Reliability**: narrative and supporting quantified information should faithfully represent the value creation story of the organization.
- **Neutrality**: information should be produced, measured, explained, presented and communicated in a fair and understandable way, without manipulation.

- **Transparency of methodology**: organizations should clearly explain how they have calculated and/or derived narrative or quantified information in situations where otherwise it would not be clear.
- **Proper communication channels and adequate frequency**: information should be communicated through both efficient and effective channels, and with an adequate level of frequency.
- **Consistency and Comparability**: information should be provided consistently through time and comparable to a certain degree not only over time with reference to the same organization, but also with industry peers.
- **Appropriate Balance between Communication and Confidentiality**: information should not harm an organization's competitive advantage nor its potential to achieve its strategy.

Content Elements of Intangibles Reporting

Definition of and role attributed to Key Performance Indicators (KPIs): KPIs are "numerical figures (metrics) related to critical/material factors of value creation, and which should provide objective evidence of performance trends by tracking them over time". The role of KPIs in reporting is to support the narrative explanation of the organizational strategy linking to past, present or future financial and/or strategic performance.

Content elements related to intangibles should be reported under the following three main sections.

1. **Outline of activities and value creation model**: this information consists of the illustration of the general characteristics of the organization's activities and the resilient management philosophy, with particular attention devoted to its value creation mechanism.
2. **Intangibles and value creation from past-to-present**: this information addresses intangibles, their role in the strategic management of the organization, and their contribution to value creation from the past to the present period. Information can

be presented using both narratives and lagging KPIs.

3. **Intangibles and value creation from present-to-future**: this information addresses intangibles, their role in the strategic management of the organization, and their contribution to value creation from the present to the future period. Information can be presented using both narratives and leading KPIs.

Chapter 1 – Rationale and Objective of the Framework

1-1 Background

WICI, the World Intellectual Capital/Assets Initiative, sees the business or an organization as a value creation mechanism which converts financial and non-financial inputs to outputs and outcomes, including financial performance.

Value creation over time is essential to the sustainability of the business or an organization, not only from a socio-environmental point of view, but also from the perspective of the continuity or existence of the business.

The main objective of business reporting[1] is to connect stakeholders and companies by providing information describing the substance and strategy of the organization. Therefore, WICI believes that business reporting should include an explanation of the value creation mechanism of the organization over time.

In order to provide information that can help stakeholders better understand the future prospects of the organization, each entity needs to clearly articulate 1) the value creation mechanism which is unique to the organization and sustainable into the future, 2) the specific strategic assets, including the intangible assets that are the key factors of the value creation mechanism, 3) the organization's own perspective concerning risks and opportunities for the future, and 4) the strategy for the future business, including how it will utilize those strategic assets based on its perspective.

The provision of the above information conveys organizational accountability for the management and development of intangibles and their contribution to the entity's value creation story.

Within today's corporate reporting environment there is insufficient reporting on intangibles, especially in consideration of the fact that the value of intangible

[1] A form of reporting which focuses on qualitative (narrative), quantitative, financially and non-financially expressed information about the past, present and future value creation process of an organization and the strategy, the resources (especially of intangible nature), the governance and the organizational model which support it.

investments has overtaken that of tangible investments for more than two decades, and value attributed to intangibles now accounts for the majority of the market capitalization of listed companies.

Traditional accounting recognizes intangibles only when they are acquired, either as individual assets or within a merger and acquisition transaction. This reporting gap hinders understanding of an organization's value creation mechanism due to the strategic importance of intangibles.

1-2 Objective of the WICI Intangibles Reporting Framework

The purpose of the "WICI Intangibles Reporting Framework" ("the Framework" throughout this paper) is to establish guiding principles and content elements for the reporting of intangible resources which are material for an organization's value creation process and its communication to stakeholders.

Taking into account various reporting legal requirements, standards, frameworks, or guidelines, and in particular reference to the six capital model proposed in December 2013 by the International Integrated Reporting Framework [2] of the International Integrated Reporting Council (IIRC), WICI's Framework focuses on intellectual capital[3], which encompasses Human capital, Organizational capital and the Relational aspects of social and relationship capital.

[2] The International Integrated Reporting Framework can be downloaded at http://integratedreporting.org/resource/international-ir-framework/

[3] The categorization of capitals by WICI is slightly different from that put forward by the IIRC. WICI is adopting the traditional categorization of "Intellectual Capital" which consists jointly of Human capital, Organizational capital and Relational capital, while the notion of "Intellectual capital" as proposed by the IIRC refers only to the Organizational capital (see IIRC Framework, 2013, paras. 2.15 and 2.18)

【Figure 1.1】 WICI's Framework Focus within the corporate reporting landscape

The Framework is principles-based. Accordingly, no detailed reporting rules will be provided in this Framework.

1-3 The Primary Audience and Information Users of the Framework

The primary target audience is all companies and other organizations belonging to the private, public and not-for-profit sectors.

Reporting and communication on intangibles are intended to provide useful information for decision making, and in particular resource allocation decisions, to investors, creditors, analysts, as well as the organization's management. These are expected to be the primary information users.

The Framework is also relevant to other stakeholders who are interested in understanding and assessing an organization's intangibles and their role in value creation over time.

The Framework is not meant to require organizations to produce a new type of report in addition to the existing reports. Information about intangibles can be employed and reported in various forms of corporate reporting, including integrated reports and business reports for both internal and external use.

This Framework addresses in particular the reporting of intangibles not covered by current financial accounting standards.

The Framework aims to support reporting of intangibles from the perspective of value creation. It focuses on non-financial reporting elements and not on the valuation of these resources.

Financial valuation is not always necessary or practical in communicating the value of intangibles (e.g., organizational climate does not necessarily have to be expressed in monetary terms to be managed or appreciated). Monetization may not always be the most effective way to understand or manage intangibles from a strategic perspective.

Accordingly, when the term non-financial is utilized in this Framework, it refers to narrative information, or quantified information that is not expressed in monetary units (e.g., percentage, Likert scale, absolute number, physical measures). Sometimes the terms "extra-financial" or "pre-financial" or "not yet financial" are used synonymously with "non-financial".

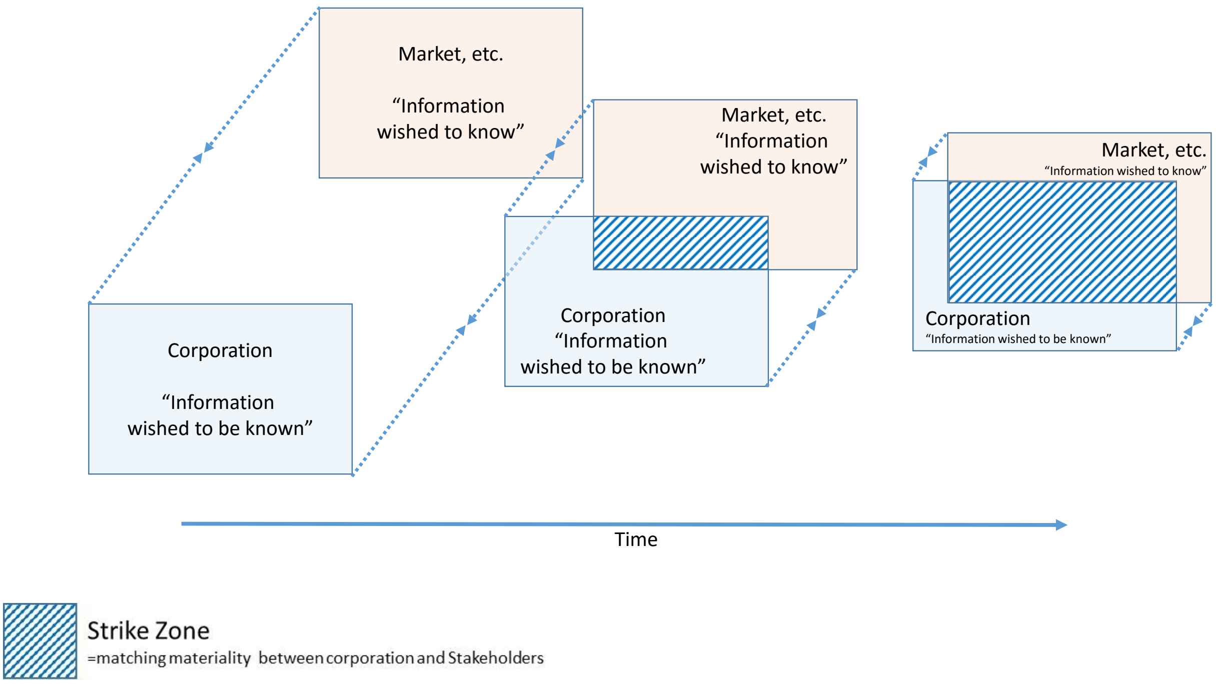
1-4 Intangibles Reporting and Strategic Management

The Framework covers specific ways of reporting on intangibles by focusing on their value and business contribution to the entity's strategic management.

However, the most important aspect is not the report itself. Internally, the most relevant benefit from the process of reporting intangibles is a greater understanding of the strengths and characteristics of an entity from the perspective of the management and its vision for the organization.

The following Figure depicts the evolution of reporting towards the establishment of a positive information cycle between an organization and its stakeholders.

【Figure 1.2】Positive information cycle between an organization and its stakeholder

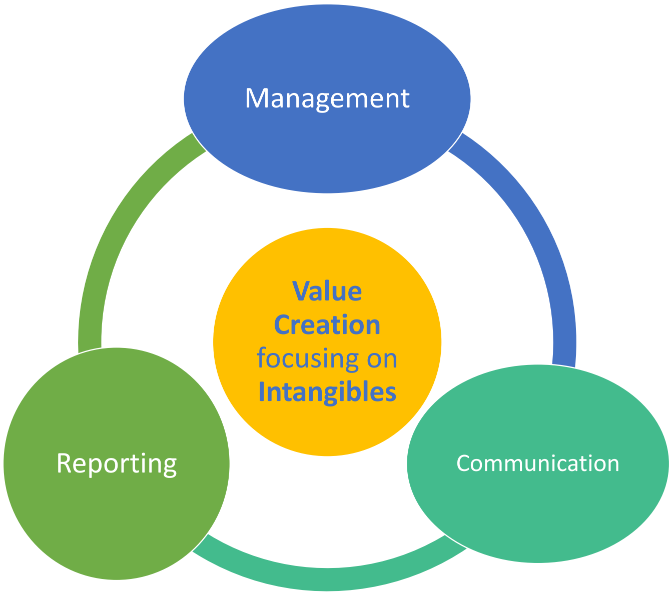


An organization should recognize that there is an information gap between itself and its stakeholders. Accordingly, it is crucial for the organization to consider an appropriate way to deliver information about intangibles to the stakeholders. This may initiate the process of enhanced mutual understanding through a dynamic information exchange.

In this respect, it is envisaged for the stakeholders to communicate with the organization by indicating ambiguous points and any improvements to be made. This would promote enhanced awareness of stakeholder needs within the organization, which may lead to better management and more relevant reporting. This in turn may enable higher quality analysis by stakeholders.

The reporting of intangibles can be a catalyst for an organization to evolve toward the establishment of a positive cycle of value creation. In other words, consistent communication between internal and external stakeholders of the value creation potential of intangibles can lead to an increase in managerial efficiency, an enhancement of competitive strength, and more sustainable growth of the entity.

【Figure 1.3】 Positive Cycle of value Creation based on Intangibles



Chapter 2-Definition of Intangibles

2-1 The Definition of Intangibles

Intangibles are non-physical resources that generate value to the organization in the short, medium and long term.

Intangibles are directly or indirectly associated with an organization's capacity to create value. In particular, they may produce two distinct but inter-connected forms of value:

- Strategic value is that related to the enhancement of the competitive, market, product, reputation, and/or risk profile of the organization;
- Financial value is that linked to the generation of net cash inflows and outflows over time.

Intangibles are resources that are available for use by an organization. Sometimes, they are actively managed in a fully conscious way, but other times they exist or are utilized beyond, or with a limited amount of awareness by the organization (e.g., reputation).

Unlike assets as defined in financial accounting (e.g., under the IASB Conceptual Framework for Financial Reporting[4]), it is not necessary that intangibles are owned or controlled by an organization. They simply have to be available and/or utilized by it to generate value[5].

2-2 Intangible Assets and Intangible Liabilities

The Framework sets out the scope for the organization to manage, describe, report and communicate the following two types of material intangibles that create value:

1) **Intangible assets**

- They are the drivers of long-term competitive differentiation and advantage. They derive from a strategic utilization (including the combination) of

[4] IASB Conceptual Framework for Financial Reporting (Exposure Draft May 2015) http://www.ifrs.org/Current-Projects/IASB-Projects/Conceptual-Framework/Documents/May%202015/ED_CF_MAY%202015.pdf

5 For a full description of the economic characteristics of Intangibles resources, see Appendix 1.

intangibles that is conducive to an organization's sustainable business value and/or sustainable future stream of cash flows.

(For example, a patent that an organization owns, but that it did not, nor will not, employ effectively may be outside the scope of this Framework. However, a patent defensively used is an asset within the boundaries of this Framework.)

2) Intangible liabilities

- Intangibles that may have substantive negative impact on the organizational business and/or financial value (e.g., bad reputation of the organization; poor management quality and leadership).
- Intangible liabilities are often linked to specific risks of the organization.

2-3 Categories of Intangibles

The above definition of intangible assets is fundamentally equivalent to the concept of Intellectual Capital.

Intellectual Capital is the internal (competencies, skills, leadership, procedures, know-how, etc.) and external (image, brands, alliances, customer satisfaction, etc.) stock of dynamically inter-related intangibles available to an organization, which allows the latter to transform a set of tangible, financial and human resources into a system capable of pursuing sustainable value creation.

As pointed out earlier (para. 1.2.), Intellectual Capital is typically categorized into three main clusters, which are 1) Human capital, 2) Relational capital, and 3) Organizational capital. The boundaries of these categories are flexible and they should not be interpreted/perceived in a static or rigid way.

The following are typical examples of intangibles that may be considered under the categories of Organizational, Human and Relational capital.

Organizational capital	The value that enables Human capital to function for supportive non-physical infrastructure, processes and databases of the organization

	(e.g., Organizational culture; Governance)
Human capital	The value that the employees of a business provide through the application of their skills, competences, knowledge, etc.
	(e.g., Leadership; Loyalty to one's organization; Capability of intellectual creation supported by a broad base of engineers and technicians)
Relational capital	The value inherent in an organization's relationships with its customers, vendors, and other important constituencies
	(e.g., Medium-term business relationships between consumers and organizations (high quality network); Rapidness in the development of products and services, Speed with which a problem is solved through communication with customers; High (e)valuation from financial institutions)

These resources are generally linked to various forms of knowledge[6] in and around the organization and its people.

2-4 Interrelatedness between Intangibles and Value Creation

An organization is a system to change various inputs to create value[7]. Rarely is value creation by an organization the outcome of only one individual intangible, rather it is the result of the dynamic interactions of tangibles and intangibles, as well as of the relationships and conversion processes between the above defined three categories of intangibles.

6 OECD, New Sources of Growth: Knowledge-based Capital, October 2013

7 The "Connectivity background paper for <IR>" issued by IIRC with the collaboration of WICI further explains the importance of the interrelatedness of various capitals and the role of organization as a system.
Connectivity background paper for <IR>:
http://integratedreporting.org/wp-content/uploads/2013/07/IR-Background-Paper-Connectivity.pdf#search='connectivity+background+paper'

The following illustration provides a depiction of how the three categories of intangibles are interrelated and can be converted from one into another in order to create value over time.

【2.1】 Relationships between intangibles

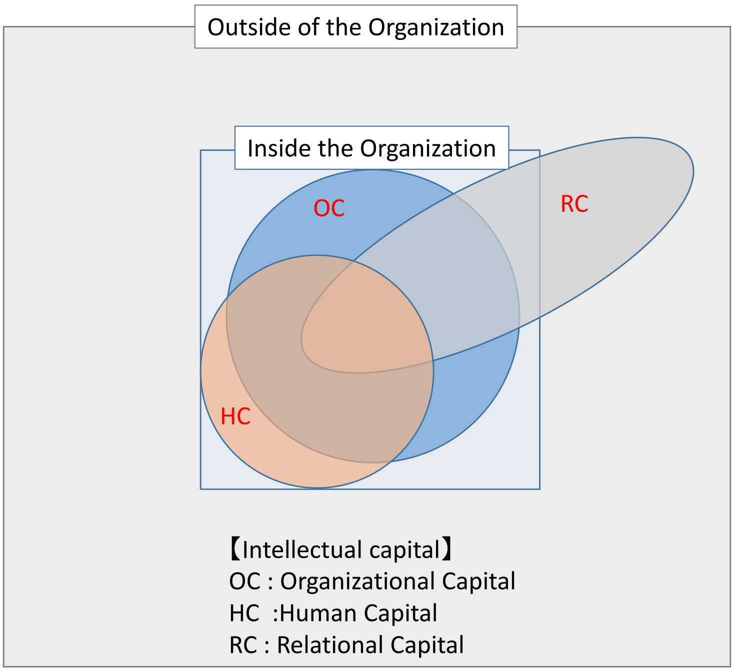


Illustration of the Dynamics of Intangibles (Figure 2.1)

- The intangibles that most crucially influence an organization's value consist mainly of Organizational, Human and Relational capital. The figure above depicts the overlap between Organizational capital, Human capital, and Relational capital as the dynamic interaction and transformation from one to the other over time, and it is not intended to imply that they have something in common as of a point in time.
- Organizational capital, Human capital and Relational capital are interrelated with each other and create synergistic effects. (For example: Human capital, such as personal know-how or innovative thinking, allows people in the organization to develop products/services. These products/services will be delivered to the customer (=Relational capital) through the organizational business model (=Organizational capital). After delivery, the organization's ability to meet customers' needs is Organizational capital. The organization can collaborate

through Relational capital for new innovation (=Organizational capital).

2-5 Difference from Accounting Definition

Under accounting standards, "intangible assets" have a common definition. For example, IAS 38 defines them as follows:

【Definition of intangibles under accounting standards】

Intangible Asset: an identifiable non-monetary asset without physical substance. An asset is a resource that is controlled by the organization as a result of past events (e.g., purchase or self-creation) and from which future economic benefits (inflows of cash or other assets) are expected. Thus, the three critical attributes of an intangible asset are: • identifiability • control (power to obtain benefits from the asset) • future economic benefits (such as revenues or reduced future costs)"[8]

As previously observed, it is not necessary that intangible assets for this Framework are owned or controlled by an organization. They simply have to be available and/or utilized by it to generate value.

In the actual life of an organization, intangibles are interrelated and often converted from one into another (e.g. knowledge to patents). It is sometimes difficult to draw a sharp line between and among intangibles.

This can fail to qualify as "identifiability", one of the critical attributes of an intangible asset as defined in accounting. Nonetheless, the fact that intangibles are difficult to identify is the nature of intangibles.

Goodwill is a special intangible in accounting. Goodwill is an intangible asset that arises as a result of the acquisition of one organization by another for a premium value over the

[8] IAS 3813, 17, 8&USGAAP:FAS141(R), FAS142/ ASC350

fair market value of the net assets. Therefore, it incorporates some intangibles that cannot be determined from the amount reported on the face of the balance sheet.

Even though under certain circumstances an internally generated intangible like development cost is allowed to be capitalized according to IFRS, the vast majority of internally generated intangibles are not recognized in financial reports.

Chapter 3: Guiding Principles for Intangibles Reporting and Communication

Despite the fact that reporting format and contents may vary because each organization can choose its own way to inform internal and external stakeholders, the following common reporting and communication principles can be adopted to improve communication of intangibles and their role within the value creation mechanism of the organization.

These principles are interconnected and interdependent. The consistent application of these principles will support the meaningful articulation of the narrative value creation story with KPIs, which is further explained in Chapter 4.

Principles and guidelines from existing corporate reporting frameworks were taken into consideration as a basis for determination of the following guiding principles for reporting and communication of intangibles (see Appendix 2: Cross referencing of existing reporting guiding principles).

Relevance:
Information in both narrative and quantified form should be aligned to an organization's own value creation mechanism, which is closely linked with its strategy.

Materiality:
Organizations should report on information representing the most significant intangibles for their value creation over time. All information has to be subject to an analysis – from both the organization and primary information users' perspective – of its relevance and magnitude with reference to the actual or potential capacity of affecting an organization's value creation along the timeline past-present-future. Every organization should report 'key' information for representing and explaining its own value creation mechanism.

Completeness and Connectivity:
Information should show the overall picture of an organization's activity and

operations from management's perspective, taking into full account the description of the connection between material intangibles for the company-specific value creation mechanism. Information should also provide a thorough and balanced view of all the relevant intangibles and combinations of intangibles.

Conciseness:
Information should be concise to enhance the understanding of primary and other stakeholders by preventing information overload, because providing too much information makes it more difficult for users to understand how the material elements relate to the company-specific value creation mechanism.

Future-orientation:
Information should focus on the future value creation that affects the organization's strategic and financial value. In particular, an organization should consider and report on those possible future events and uncertainties and their associated probabilities that might impact a company's operating performance.

Reliability:
The narrative and the supporting quantified information should faithfully represent the value creation story of an organization. In particular, the process to report quantified, non-financial information, such as KPIs, should provide the possibility to trace information to its original source(s) and verify the accuracy. An explanation of the status of internal control is also desirable.

Neutrality:
Information should be produced, measured, commented upon, presented and communicated in a fair and understandable way, without manipulation.

Transparency of methodology:
Organizations should clearly explain how they have calculated and/or derived narrative or quantified information in situations where otherwise it would not be clear.

Proper communication channels and adequate frequency:

Information should be communicated through both efficient and effective channels, and with an adequate level of frequency in order to meet users' needs for assessment.

Consistency and Comparability:

Organizations should report and communicate the same information on intangibles consistently through time until their organizational strategy or value creation mechanism is revised. When it is revised, the selected indicators should be changed accordingly. Organizations should not replace indicators with new ones in order to portray the organization more favorably.

The Information provided on intangibles, including narrative and especially quantified information, should be comparable to a certain degree not only over time with reference to the same organization, but also with industry peers.

Appropriate Balance between Communication and Confidentiality :

Information should not harm an organization's competitive advantage nor its potential to achieve its strategy. Accordingly, it is not necessary to report competitively sensitive information. Only information that is not confidential and is relevant to support and explain the value creation story should be communicated.

Chapter 4: Content Elements of Intangibles Reporting

In this Chapter, essential information content on an organization's reporting of intangibles and its value creation can be found.

An important qualifying element of reporting on intangibles and the value creation mechanism is an integration, to the extent possible, between narrative information and quantitatively expressed information represented as lagging or leading indicators (KPIs).

4-1 Key Performance Indicators (KPIs)

Inclusion of KPIs is expected to raise the reliability and verifiability of the report[9].

Definition of KPIs

KPIs are numerical figures (metrics) related to critical/material factors of value creation and which should provide objective evidence of performance trends by tracking them over time.

KPIs can be categorized as leading or lagging indicators depending on the prevalent time orientation (past, present or future) of their meaning or implication for an organization's performance or activity.

Leading Indicator	Lagging Indicator
Indicator which has a predictive capacity and may refer to the performance to be achieved. It is future oriented and it is generally based on present events or phenomena.	Indicator which refers to the performance achieved and past events. It is therefore past-oriented in nature.

Role of KPIs in Reporting

KPIs support the narrative explanation of the organizational strategy linking to past,

[9] For more detailed information, please refer to WICI concept paper on KPIs : http://www.wici-global.com/wp-content/uploads/2012/06/Concept-Paper-on-WICI-KPI-in-Business-Reporting-ver.1-1.pdf

present or future financial and/or strategic performance.

According to their level of relevance, KPIs can be articulated on three levels; General, Industry-specific and Organization-specific.

- **General KPIs** are those that may be relevant for most organizations across industries and sectors.
- **Industry-specific KPIs** are those specific to a certain industry or sector[10].
- **Organization-specific KPIs** are those specific to each organization that should be reported in order to best represent its unique value creation mechanism.

In addition to the fact that the organization-specific choice (or combination) of KPIs reflecting its value creation mechanism is an insightful tool for users to compare the company to others, there are typically three categories of comparability for analyzing the presented KPIs:

1) Time-series analysis: compare the change in KPIs over time
2) Competitor analysis: compare KPIs across companies
3) Actual and forecast analysis: compare actual and forecast KPIs

Organizations are expected to report the KPIs which best represent the uniqueness of their value creation mechanism.

The mere observation of one KPI at a point in time would provide little information (e.g., "customer satisfaction of 5.6 in 20XX" is not meaningful per se). Consideration of trends of KPIs over time and of their interrelationship is therefore essential for their interpretation and understanding.

It is expected that an organization reports outcome-based indicators over time, for the minimal number of periods that is needed for users to correctly understand the meaning of those indicators (e.g., the trend of the KPI 'revenue from internal R&D –generated products' in a pharmaceutical company or the KPI 'flight occupancy rate' for an airline company). Organizations should also report how these indicators have been calculated,

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[10] WICI has elaborated Industry-specific KPIs that can be found at http://www.wici-global.com/kpis.WICI Industry-specific KPIs are suggested only to represent a set of industry relevant indicators within which an organization can choose.

and their sources or references.

As explained earlier, it is also important to describe how intangibles-related activities can eventually lead to either revenue growth or profitability improvement. Intangibles-related indicators connected to financial results will help information users understand the story of the organization's value creation, and set the foundation for predicting the organizations' strategic and financial value (see Appendix 3: Examples of Interrelatedness between KPIs).

4-2 Value Creation Story focusing on Intangibles

Content elements related to intangibles should be reported under the following three main sections:

A: Outline of activities and value creation model
B: Intangibles and value creation from past-to-present
C: Intangibles and value creation from present-to-future

For the purpose of providing a more concrete illustration of material intangibles closely related to value creation and/or connectivity between intangibles and financial performance, typical elements as well as KPIs are indicated in this section. However, these are just examples, so it may not be necessary for all organizations to cover these examples.

A: Outline of Business and Management Philosophy

This section consists of the illustration of the general characteristics of the organization's activities and the resilient management philosophy, with a particular attention devoted to its value creation mechanism.

Management Philosophy

The philosophy of management represents the *raison d'être* of the organization. Accordingly, it includes the vision and the mission of an entity in relation to its value creation mechanism.

Typical elements

- management's philosophy and policies that underscore the organization's business management.
- whether past business developments reflected management philosophy..
- how the management is conveying or intends to convey the company's philosophy to whom, to what extent and by what means.
-

Examples of related KPIs	Figures from	Implication
Degree of internal penetration of management principles	Survey by the organization itself or by external institutions	When management philosophy and targets are well understood by employees and shared with stakeholders, such integrity of the organization may contribute to enhancing the organization's strength leading to higher sales, profit and reliability

Outline of Business

Outline of business represents the activities of the organization, with particular reference to value proposition, the main products/services offered to the markets and the collaboration and/or competition with other entities.

Typical elements:

- Main areas of business (goods / services) and intended customers
- Basic sales structure per Business to Business (BtoB) and Business to Customer (BtoC)
- Market size, major competitors and the company's position in the industry it belongs to at the national and/or regional level

Examples of related KPIs	Calculation	Implication
Operating profit margin of major business	Operating profit of major business divided by sales of major business	High profit margin suggests competitive advantage of the organization in the business area
Weighted average of the numbers of companies providing the same products or services	Average number of competing companies in each major product, weighted based on the proportion of each product against total sales of the company	When many organizations in the same industry compete for their main products or services, it is highly likely that an intense price competition will be brought about, resulting in a low profit margin

B: Intangibles and Value Creation from Past-to-Present

This section covers the disclosure of information on intangibles, their role in the strategic management of the organization, and their contribution to value creation from the past to the present period. Information can be presented using both narratives and lagging KPIs.

Strategy

The strategy that the organization intended to implement to create value, as consistent with the Management Philosophy, is described.

Typical Elements

- Status of selection and concentration of products or services, technology field, customers and market
- Choice of areas for investment or R&D
- Specific initiatives to implement the strategy

Examples of related KPIs	Figures from/Calculation	Implication
Ratio of specialized market in its line of business	Sales of products or services for specific users or specialized markets divided by total sales	When a company has some portion of specific users or specialized fields for which the company has a unique strength and a small number of competitors, it may contribute to improving the total profit margin
Agility related to withdrawal from unprofitable business	Number of business departments closed or sold off in the past 5 years, with the figure of total profit or loss coming from the withdrawal	When a company decides to give up some business or specific products or services in a timely manner reflecting a related change in business circumstances, such a withdrawal may significantly contribute to improving its profit margin
Degree of R&D concentration	R&D investment in major business area divided by the total R&D investment	Status of concentration of R&D costs for the main business area including related areas with the possibility of future evolution provides insight into the strategic characteristics of R&D in the organization

Business/Activity Model

The way activities are planned and implemented in order to achieve the organization's strategy is identified here, briefly described and possibly quantitatively expressed.

Typical Elements

- How a company differentiates its business, product or service from others
- Line-up of products or services

Examples of related KPIs	Figures from/Calculation	Implication
Ratio of R&D expenditure compared with sales	R&D expenditure divided by sales	In the case where a company focuses on technology as an important tool for creating value, enthusiasm for R&D suggests the possibility of differentiation which may lead to excess profit
Human Resource Development (HRD) investment per employee	Total HRD expenditure divided by number of employees	HRD expenditure may lead to enhanced creative activities by employees, possibly resulting in improved competitive advantage for the company.
New product ratio	Sales of products or services within three years from the initial sales divided by total sales	Bringing new products and services to market may contribute to increasing or maintaining unit price as well as attracting new customers

Intangibles as Strategic Resource(s)

An organization's strengths, which include both intangibles and their relationship to tangible and financial assets, are described as the key factor in the company specific value creation mechanism.

Typical Elements

- Advantageous negotiating power vis a vis suppliers or customers
- High quality of main products or services
- Level of mutual trust with primary stakeholders such as financial institutions and the local community
- Organizational capability, including human, technological or creative capability

Examples of related KPIs	Figures from/Calculation	Implication
Price elasticity of product sales compared to cost of goods purchased	Rate of change in shipment unit price of major products divided by rate of change in the price of raw material	High value, close to or greater than one, of price elasticity might mean that the company has superior negotiating power with customers. Even in the case of increasing costs, such a company may maintain or enhance its profit
Number of recalls	Total number of units which fell into the recall product category during the business year	Low number of recalled product units may translate to high quality of products as well as lower additional cost to deal with recalls. This figure is especially meaningful in the automobile and consumer electronics

		industries
Changes in customer unit price	Year on year sales value divided by the number of sales	An increase in this figure suggests that the company’s attractiveness to existing customers is growing or that it has successfully found new customers who place high confidence on it
Financial capacity	Average contracted interest rate in loan or straight bond issues minus prime rate	A smaller difference may translate to a stronger level of financial market confidence in the company, resulting in a lower cost of capital
Number of proposed and implemented internal improvement proposals		A larger number of proposals suggests that workers have high motivation to improve the performance of the company. The number of proposals implemented suggests the level of quality of proposals which may enhance corporate performance
Intellectual property owned and its citation		Intellectual Property Rights (IPRs), the results of past intellectual activities, can be indicative of the company’s relative competitiveness, as long as they are actually

		implemented. The quality of IPRs can be evaluated by the number of citations in external documents

Current Performance

Current financial performance, such as an organization's profit, or cash flows, as well as intangible performance, such as market share or reputation, generated from the utilization and interaction of strategic intangible and tangible resources is quantitatively documented and explained.

Typical Elements

- Financial results such as sales, costs, profits, cash flows by geography, business segment, etc.
- How the company is evaluated by important stakeholders.

Examples of related KPIs	Figures from/Calculation	Implication
Degree of customer satisfaction	Survey by the company itself or external research	A high degree of satisfaction may drive positive changes in sales volume or profit margin
Inclusion in Socially Responsible Index (SRI) funds at the end of year or during the year		Suggests that the company's social performance was positively received and resulted in attracting more investors, which may have lowered the cost of capital available to the company
Corporate image	External survey of ranking by permanent job seekers	Positive image may reduce the cost of recruiting

	or as a general perception	highly talented people as well as that of negotiation with material stakeholders
Credit rating		A higher credit rating may result in a lower cost of capital and more sustainable relationships with business partners

C: Intangibles and Value Creation from Present-to-Future

This section covers information on intangibles, their role in the strategic management of the organization, and their contribution to the value creation from the present to the future period. Information should be presented using both narratives and leading KPIs.

Strategy in a Changing Business Environment and Intangibles Utilized

The strategy for value creation in the future as well as business model, activities and key intangibles utilized to pursue the strategy are explained in a systemic manner.

Typical Elements

- How the company recognizes possible changes in the business environment including opportunities and threats which may have a critical impact on its value creation
- Strategy the company will take in the future business environment
- Investment, action plans and key intangibles to realize the strategy
- Measures for creating or attaining new intangibles to enhance the company's strengths or diminish weaknesses

Examples of related KPIs	Figures from/Calculation	Implication
Outsourced R&D cost ratio	Outsourced R&D cost divided by total R&D expenditure	Outsourced R&D may be indicative of flexibility and a positive attitude toward innovation

Average age of employees		If a company intends to focus on a younger target market, a lower average age of employees may indicate a higher likelihood to develop products or services attracting more customers
Degree of employee satisfaction	Survey by the company itself or external research	Employee confidence in the organization may drive a spirit of cohesion, creativity and innovation, resulting in value creation
Number of products in the pipeline covered by patents	Number of products waiting for commercialization, the main elements of which are protected by patents (especially in the pharmaceutical industry)	The number of products in the pipeline provides an indication of future potential revenue streams
Number of patents with economically meaningful remaining terms		These numbers suggests the company's potential to continue profiting in the future from products protected under patents

Identification of Risks and Actions to Maintain and/or Improve Intangibles

Risks, opportunities or uncertainties that may damage or improve strategic resources, including intangibles, are identified. Planned future actions intended to address these elements are also to be presented.

Typical Elements

- Critical risk factors that could threaten the company's strength or future performance
- Sustaining key intangibles utilized for responding to risks or taking advantage of opportunities, including those related to organizational, human, technological or relational capabilities
- Risk management process and supporting governance structure

Examples of related KPIs	Figures from/Calculation	Implication
Compensation claims in pending lawsuits		This figure reflects the maximum potential amount of future damages in a lawsuit. To make clear the maximum downside risk reduces the uncertainty for the company and provides investors with confidence in investing in the company
Diversification of risks	Number of main factories of suppliers of core products or Herfindahl-Hirschman Index which shows the degree of decentralization of the share of major products in relation to total sales	In cases where a company relies upon a small number of factories supplying core products, or upon a small number of products, an incident or change in the market may suddenly deteriorate total production, sales or profit
Risk of being an acquisition target[11]	Present corporate value in stock market minus net cash, divided by book value	When a share price falls below the perceived potential of the

[11] From an investor point of view, the risk of being an acquisition target can also be considered as an opportunity/solution.

	of net assets	organization, it may become a target for acquisition at a suboptimal or bargain price
Job leaving ratio	Number of employees leaving the company during one year divided by total number of employees at the beginning of the year	For an organization which relies heavily on Organizational capital, a lower emigration ratio may indicate better future profits by maintaining capability as well as minimizing the risk of outflow of knowledge and know-how
Degree of employee satisfaction (mentioned above)		A high degree of employee satisfaction suggests that the company may be in a good position to respond successfully to risk

Future Targets and Business Sustainability

Expected future financial targets such as sales, costs, profits and cash flows, as well as intangible targets, such as reputation and customer satisfaction, are portrayed and supported by appropriate leading KPIs.

Typical Elements

- Target figures of financial elements such as revenues, costs, profits, cash flows
- Leading indicators.
- How the company hopes to be evaluated by important stakeholders.
- Coexistence with society

Examples of related KPIs

Above-mentioned leading KPIs, including the following, may be indicative of future performance:

- Adoption by SRI funds and more generally signatories to the United Nations Principles for Responsible Investment
- Credit rating
- New product ratio
- Change in per-customer earnings

Appendices

Appendix 1: Economic Characteristics of Intangibles[12]

In economics and management studies intangibles are recognized to have certain relevant characteristics which make them distinct and unique within organizations. In addition, these resources are generally linked to various forms of knowledge in and around the organization and its people

Excludability: partial or full avoidance of access and eventual use by others (e.g., limited and vague property rights, IP spill-over, global antagonism)

Non-rivalry (or non-scarcity): possibility to have simultaneous access and/or use (e.g., software)

Non-tradability: inability of exchange in a market. (e.g., limited exit strategy, sunk costs, limited hedging – no future markets)

Risks: potential loss of value (e.g., inability to cope with change, possibility of disappearance due to bad reputation, high level of uncertainty related to outcomes and to the timing of these outcomes)

Scalability: possibility to increase the quantity and the quality without a correspondent increase in cost(s) (e.g., software reproduction)

Pervasiveness: possibility to be naturally disseminated (e.g., network effects)

Appendix 2: Cross Referencing of Existing Reporting Guiding Principles

The following are organizations from which we drew elements that were referenced in

[12] These economic characteristics of intangibles are drawn and elaborated from Chapter 2 (pp. 21-49) of the book by Prof. Baruch Lev, Intangibles. Management, Measurement, and Reporting, Washington, D.C.: Brookings Institution Press, 2001.

developing the Guiding Principles:

Cross reference of guiding principles for business reporting	WICI	IIRC	EFFAS CIC
	World Intellectual Capital/Assets Initiative	International Integrated Reporting Initiative	The European Federation of Financial Analysts Societies - Commission on Intellectual Capital
	WICI Intangibles Reporting Framework Version 1.0 (2016)	International Integrated Reporting Framework (2011)	Principles for Effective Communication of Intellectual Capital (2008)
	http://www.wici-global.com/wirf/WICI_Intangibles_Reporting_Framework_v1.0.pdf	http://integratedreporting.org/wp-content/uploads/2015/03/13-12-08-THE-INTERNATIONAL-IR-FRAMEWORK-2-1.pdf	http://effas.net/pdf/setter/EFFAS-CIC.pdf
Comparability	✓	✓	
Completeness	✓	✓	
Materiality	✓	✓	
Relevance	✓		
Reliability	✓	✓	✓
Connectivity	✓	✓	✓
Consistency	✓	✓	✓
Future-orientation	✓	✓	
Conciseness	✓	✓	✓
Neutrality	✓		

Transparency of methodology	✓		✓
Appropriate Balance between Communication and Confidentiality	✓		✓
Proper communication channels and adequate frequency	✓		
Stakeholder relationships		✓	
Strategic focus		✓	
Standardization			✓
Alignment of interests between company and investors			✓
Risk assessment			✓
Effective disclosure placement and timing			✓

Appendix 3: Examples of Interrelatedness between KPIs

Example 1: Connectivity of KPIs for the Manufacturing industry with high percentage of R&D investment

"How facility investment, R&D investment and labor cost are visualized by KPIs"

- Creating new products based on the close relationship with manufacturing partners such as factories and wholesale traders (Relational capital)→number of meetings with client→number of prototypes/number of pipeline/number of presented items at exhibition→new products-to-sales ratio/new products-to-net profit ratio

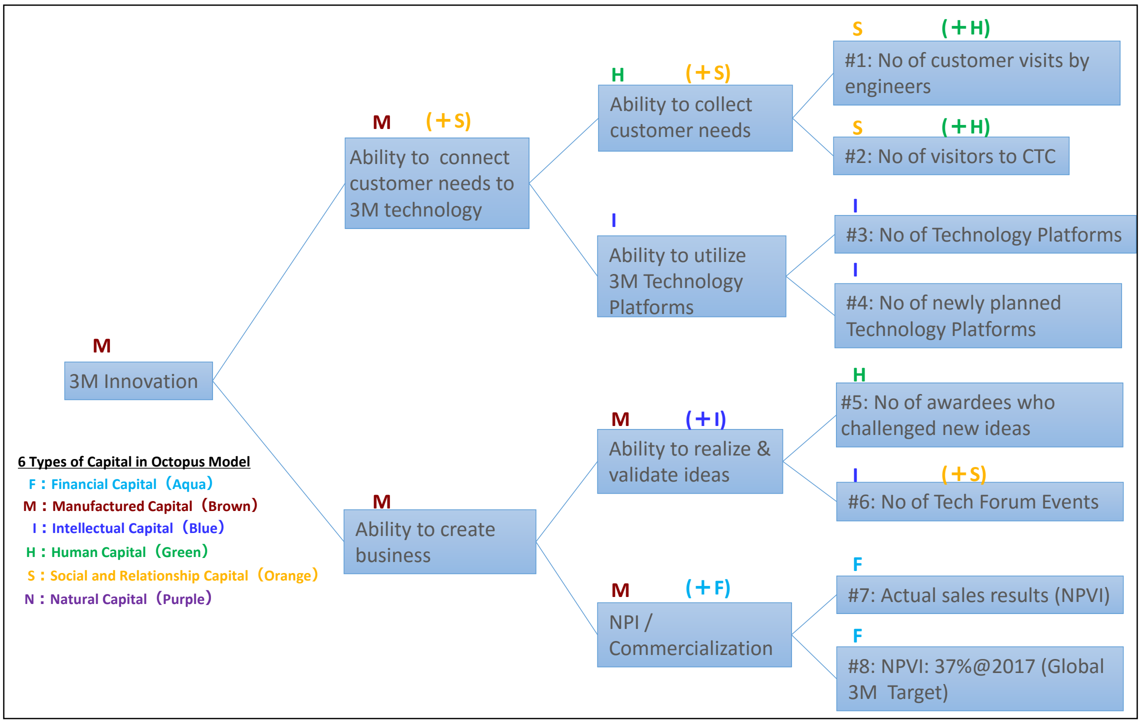
- Developing and improving products based on consumers' demand→feedback system and amount of feedback from call center, SNS(social networking service), sales situation, sales persons/number of good claims→number of new products/number of improved products→new products-to-sales ratio/new products-to-net profit ratio

- Organization with technology specialized for a specific area including pharmaceutical organization→the growth of the market and technological direction→number of recruits for specific skills→number of pipelines→number of patents/market share→new products-to-sales ratio/new products-to-net profit ratio

Example 2: Analysis of Value Creation Process at 3M Japan

The following logic tree analysis clarifies the connectivity between the organization's strengths and non-financial indexes for reporting:

Logic Tree for 3M Innovation



(Data source: Slides presented at 12th World Congress of Accounting Educators and Researchers by Mike Masahiko Kon, 3M Japan Vice President/WICI Japan Vice Chair, Nov 14, 2014)

Example 3: Other Examples

The following existing examples of KPIs can also be helpful in selecting KPIs from the perspective of each organization's unique value creation story.

- FRENCH GUIDELINES "Thésaurus-Bercy V1" - Référentiel français de mesure de la valeur extra-financière et financière du capital immatériel des entreprises"(2011) http://observatoire-immateriel.com/wp-content/uploads/2015/11/Thesaurus-Volet-1.pdf

- MERITUM GUIDELINES "Guidelines for Managing and Reporting on Intangibles (Intellectual Capital Report)"(2001) http://www.pnbukh.com/files/pdf_filer/MERITUM_Guidelines.pdf

- DANISH GUIDELINES on IC "A GUIDELINE for INTELLECTUAL CAPITAL STATEMENTS - A KEY TO KNOWLEDGE MANAGEMENT"(2002) http://ufm.dk/en/publications/2001/files-2001/a-guideline-for-intellectual-capital-statements.pdf

Glossary

Asset (in accounting according to the IASB)	An asset is a present economic resource controlled by the entity as a result of past events. An economic resource is a right that has the potential to produce economic benefits.
Audience of the Framework	They are represented by any type and size of companies and other organizations belonging to the private, public and not-for-profit sectors, which can adopt the Framework.
Business Reporting	A form of reporting which focuses on qualitative (narrative), quantitative, financially and non-financially expressed information about the past, present and future value creation process of an organization and the strategy, the resources (especially of intangible nature), the governance and the organizational model which support it.
Business Sustainability	Capacity of an organization to endure its value creation process over time.
Financial Value	Value linked to the generation of net cash inflows and outflows over time.
Intangible Asset	The drivers of long-term competitive differentiation and advantage. They derive from a strategic utilization (including the combination) of intangibles that are conducive to an organization's sustainable business value and/or sustainable future cash flow stream.
Intangible Liability	Intangibles that may have substantive negative impact on the organizational business and/or financial value (e.g., bad reputation of the organization; poor management quality and leadership). Intangible liabilities are often linked to specific risks of the organization.

Intellectual Capital	The internal (competencies, skills, leadership, procedures, know-how, etc.) and external (image, brands, alliances, customer satisfaction, etc.) stock of dynamically interrelated intangibles available to an organization, which allows the latter to transform a set of tangible, financial and human resources into a system capable of pursuing sustainable value creation.
Key Performance Indicator (KPI)	KPIs are numerical figures (metrics) related to critical/material factors of value creation and which should provide objective evidence of performance trends by tracking them over time.
Lagging Indicator	Indicator which refers to the performance achieved and past events. It is therefore past-oriented in nature.
Leading Indicator	Indicator which has a predictive capacity and may refer to the performance to be achieved. It is future-oriented and it is generally based on present events or phenomena.
Liability (in accounting according to the IASB)	A present obligation of the entity to transfer an economic resource as a result of past events
Measurement	The determination of size, capacity or quantity referenced to an object, an event or one of its characteristics
Non-financial (or pre-financial or extra-financial)	Monetization may not always be the most effective way to understand or manage intangibles from a strategic perspective. Accordingly, when the term non-financial is utilized in this Framework, it refers to narrative information, or quantified information that is not expressed in monetary units (e.g., percentage, Likert scale, absolute number, physical measures). Sometimes the terms “extra-financial” or “pre-financial” or “not yet financial” are used synonymously with “non-financial”.
Performance	The past, present or the future outcome of the value creation process of an organization.

Primary information users	They are embodied by investors, creditors, analysts, as well as the organization's management.
Reporting	The process aimed at the measurement and communication of information about organization's activities and outcomes. It can be both internally and externally oriented.
Strategic value	Value related to the enhancement of the competitive, market, product, reputation, and/or risk profile of the organization
Value creation mechanism	System through which an organization's value is created
Value creation story	Narrative explanation – often supported by quantitatively expressed information – about the interconnected events which have occurred and generated the organization's value